



State of Washington
Department of Revenue

Excise Tax Advisory

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NUMBER: 490.04.170/111

CONVERSION DATE: July 1, 1998

INTEREST ON CONSTRUCTION LOAN TAXABLE AS PART OF CONTRACT PRICE

Issued July 31, 1974

Is interest paid by an owner to a contractor to reimburse the latter for interest paid on a construction loan part of the contract price, and as such subject to the Retailing business and occupation tax and the retail sales tax?

RCW 82.04.070 defines "gross proceeds of sales" to include

. . . the value proceeding or accruing . . . for services rendered, without any deduction on account of . . . interest, . . .

Published Rule 170, covering the taxability of construction contractors generally, states that

The term "constructing, . . . of new . . . buildings or other structures" . . . includes the . . . charge made for all service activities rendered in respect to such constructing, . . . The fact that the charge for such services may be shown separately in bid, contract, or specifications does not establish the charge as a separate item in computing tax liability.

If interest paid by a contractor on a construction loan is included in the contract, to be recovered as part of the contractor's cost of doing business, it must be included in the measure of the business and occupation tax and the retail sales tax. This is true even though the owner may pay the contractor the same or a lesser amount of interest as the contractor pays on the loan. The owner's payment of this interest to the contractor is not exempt as a reimbursement of an advancement under published Rule 111 unless the owner alone is liable to the lending institution for payment of the interest, and the contractor has no personal liability for payment of the interest, either primarily or secondarily.

ETBS have been made Excise Tax Advisories, and have retained their old number. Advisories with a 2 (plus three digits) are new advisories, ETBs that have been revised and readopted after review under the Department's regulatory improvement program, or advisories that have been revised and/or readopted.

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